



# Arizona Economic Update

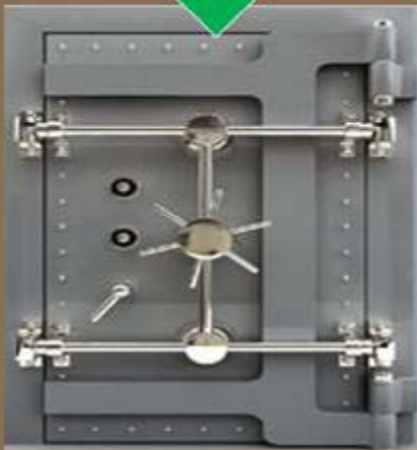
*December 3, 2008*

*Office of the Arizona State Treasurer Dean Martin*



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**All state funds must be**  
**deposited at**  
**Treasurer's Office**

**FY 08 total was:**

**\$39.10 Billion**



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# Daily Revenue



## State Spending

## Invested



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# Our Investment Philosophy

**SAFETY**  
before  
**LIQUIDITY**  
before  
**YIELD**



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# *Inside the Trading Room* *A Day In the Life...*



- Last Business Day 2006 \$2.3 Billion in cash
- Example of one trade of over 300 trades executed
  - Out to bid for overnight repo (loan collateralized by US Treasuries)
  - 12/29/06 to mature on 1/2/07
  - The bid winner sent us \$2.346 Billion in US Treasuries
  - 1/2/07 received \$2.3 Billion back
  - We were paid \$1.3 million in interest!



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# *Treasurer's FY 08 Performance*

Operating Revenue to the State of Arizona  
State Agencies, Endowment and LGIP Clients

Fiscal Year 2008 Earnings Distributed:

**\$502,385,363**

vs. FY07

**\$484,148,689**

**UP 3.8%**



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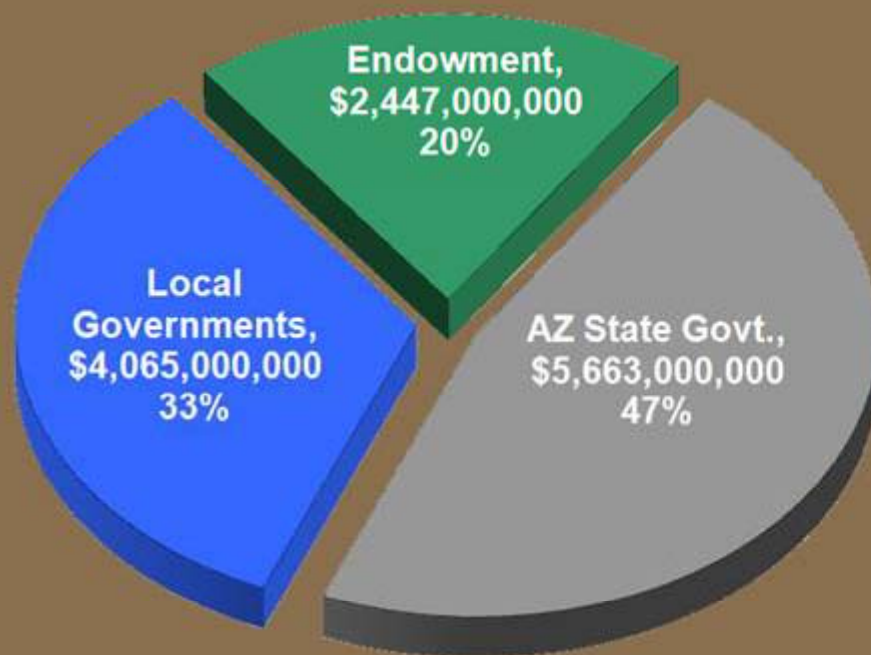
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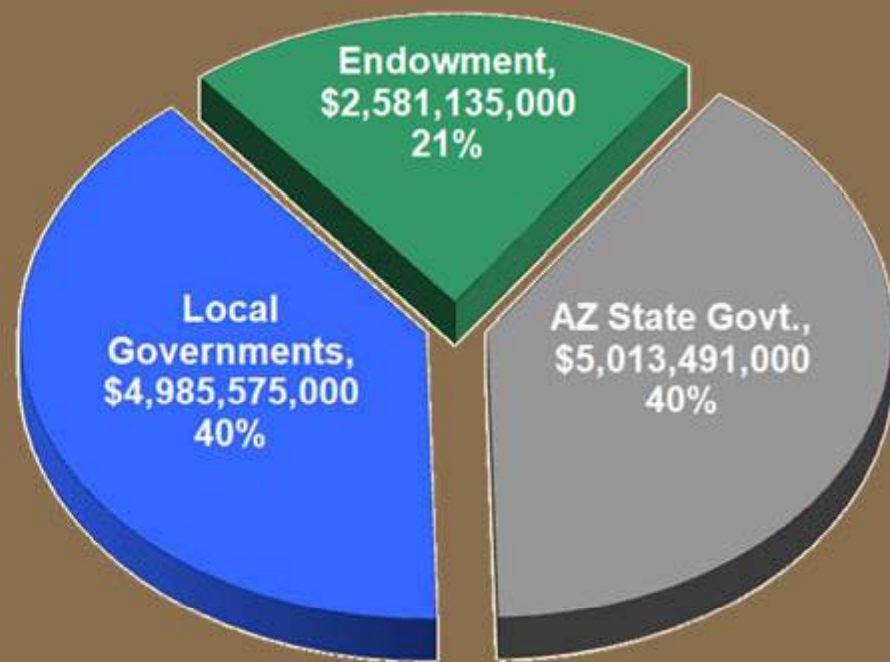


# Assets Under Management (market value)

June 2007 - \$12.17 Billion



June 2008 - \$12.58 Billion



**\$1 Billion in additional Voluntary Investments!**



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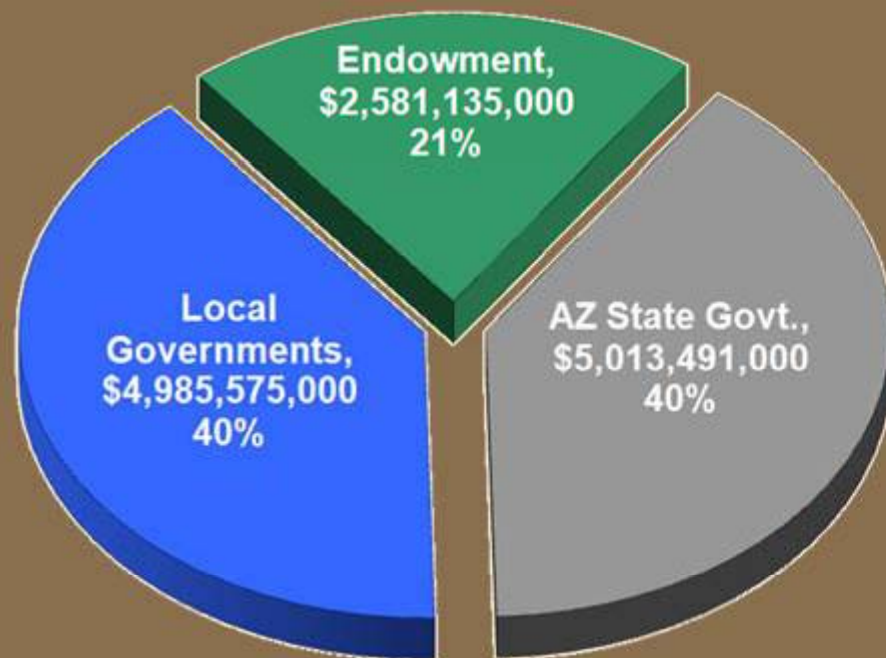
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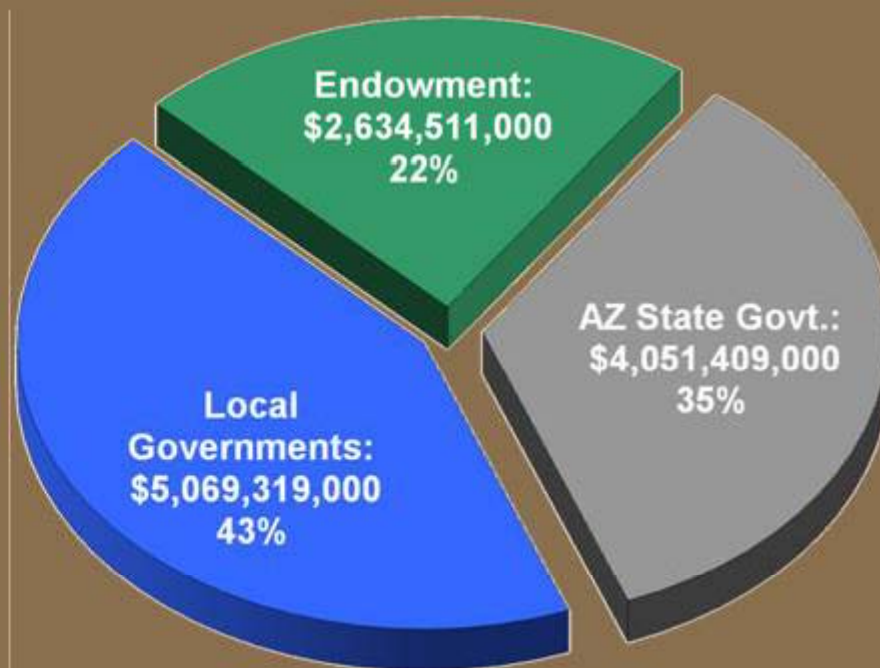


# Assets Under Management (market value)

June 2008 - \$12.58 Billion



August 2008 - \$11.76 Billion



State balances drop by \$1 Billion in two months!



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# *Economic Outlook*



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# Housing & Construction Outlook

Sub-prime  
High-rate  
NINJA Loans

Housing  
Market &  
New Home  
Construction

Commercial  
Construction



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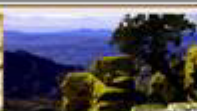
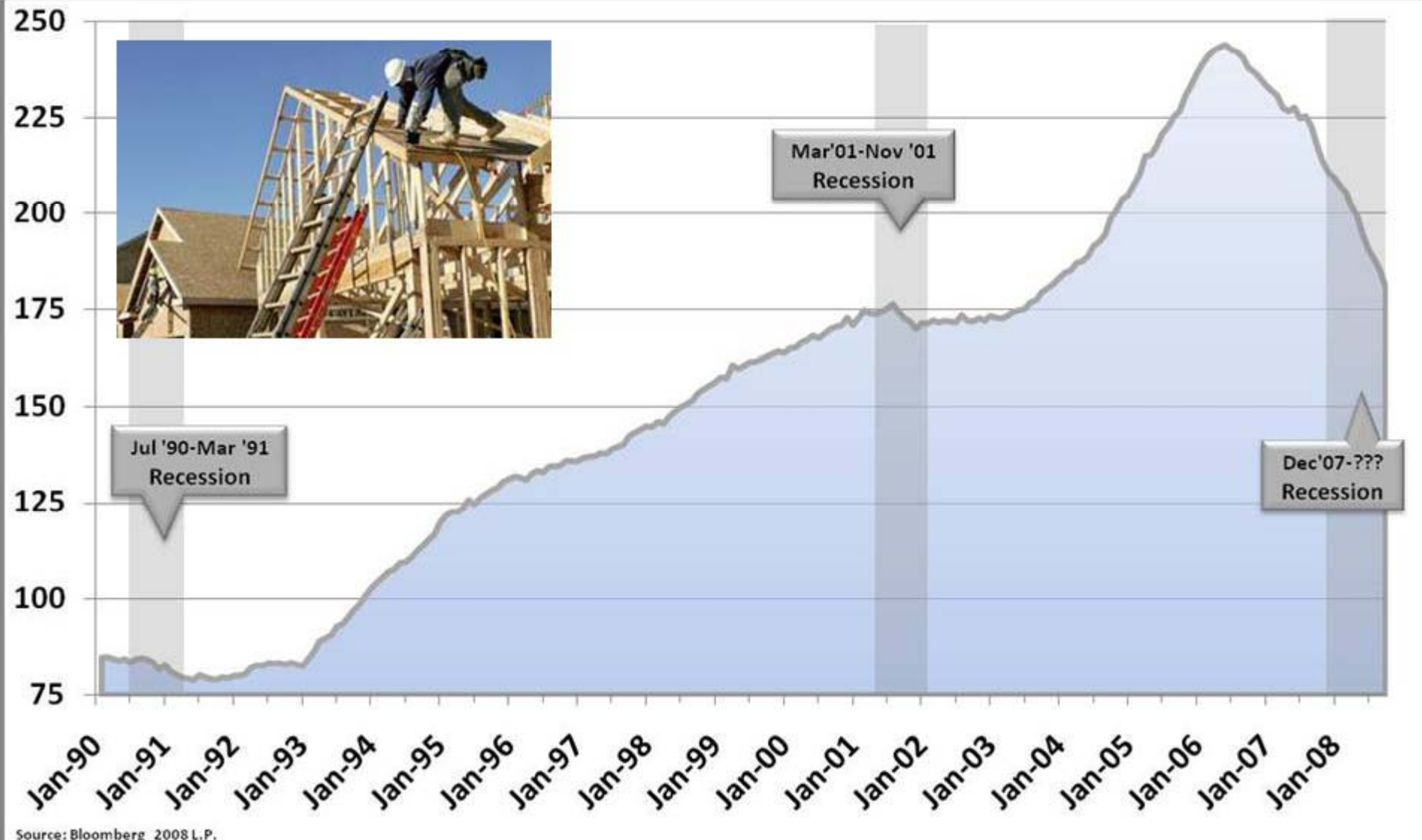
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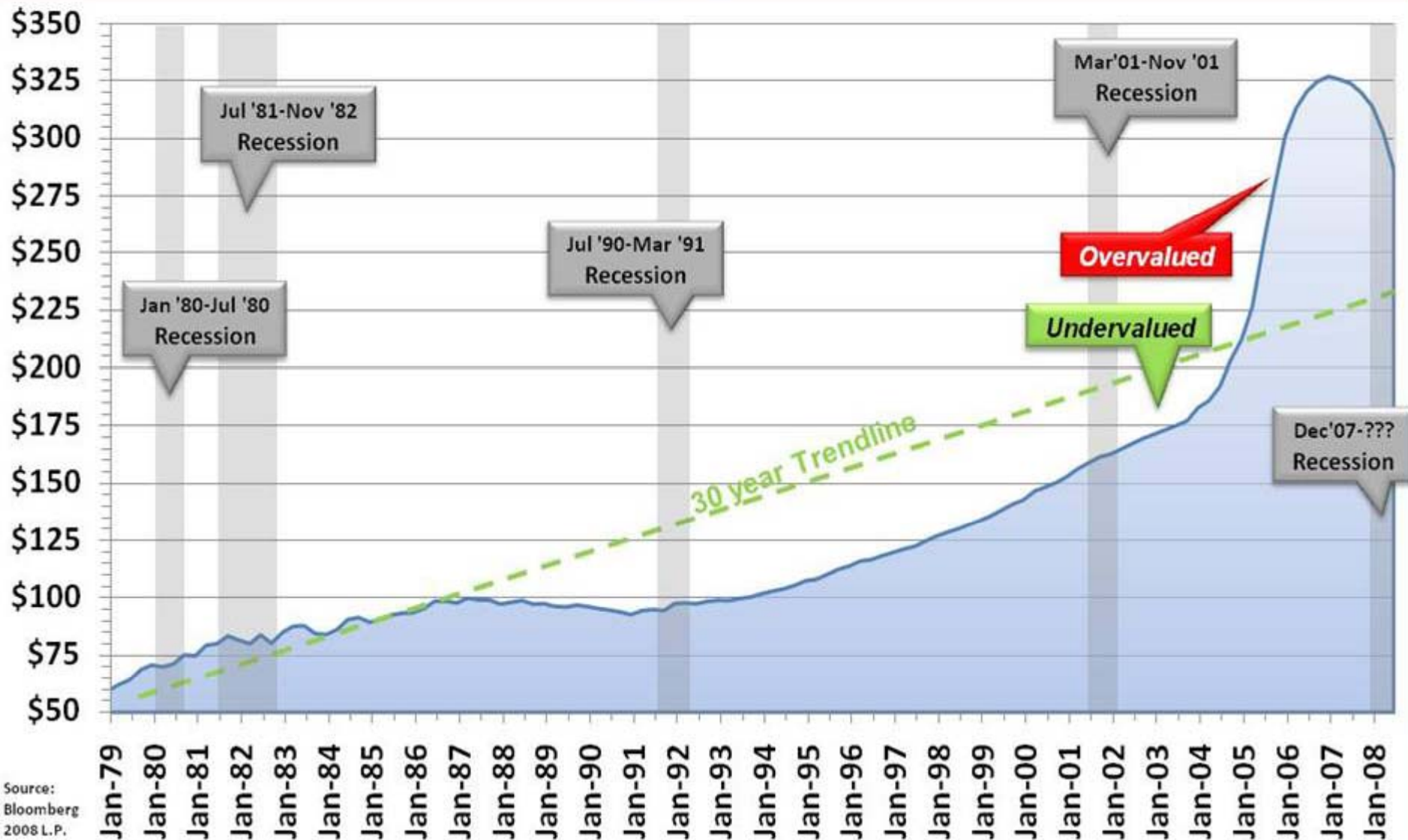




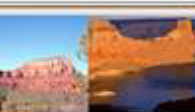
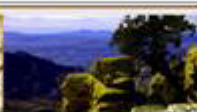
# AZ Construction Employment Still Dropping



# AZ Conventional Mortgage Price Index for Valley



Source:  
Bloomberg  
2008 L.P.



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# *Arizona Over Stocked on Homes*



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# Over 9% of US Mortgages Distressed



Source:  
Bloomberg  
2008 L.P.



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# Sub-Prime In Arizona

<u>Arizona</u>	CY 2004	CY 2005	CY 2006
Number of high rate loans	62,057	158,460	154,689
% of all mortgages	16	27.4	32.5
Volume in millions	\$6,034	\$21,934	\$25,233
% of volume	10.7	21	27
State Rank	10	5	5

Source: WSJ, Federal Financial Institutions Examination Council, and U.S. H.U.D.



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# Sub-Prime In Phoenix

<u>Phoenix</u>	CY 2004	CY 2005	CY 2006
Number of high rate loans	47,388	126,295	121,133
% of all mortgages	16.6	28.7	34.1
<b>As a % of all sales</b>	<b>29.2</b>	<b>70.8</b>	<b>95.7</b>
Volume in millions	\$4,660	\$18,016	\$20,422
% of volume	10.9	22.2	28.1
Metro Rank	5	4	4

Source: WSJ, Federal Financial Institutions Examination Council, and U.S. H.U.D.



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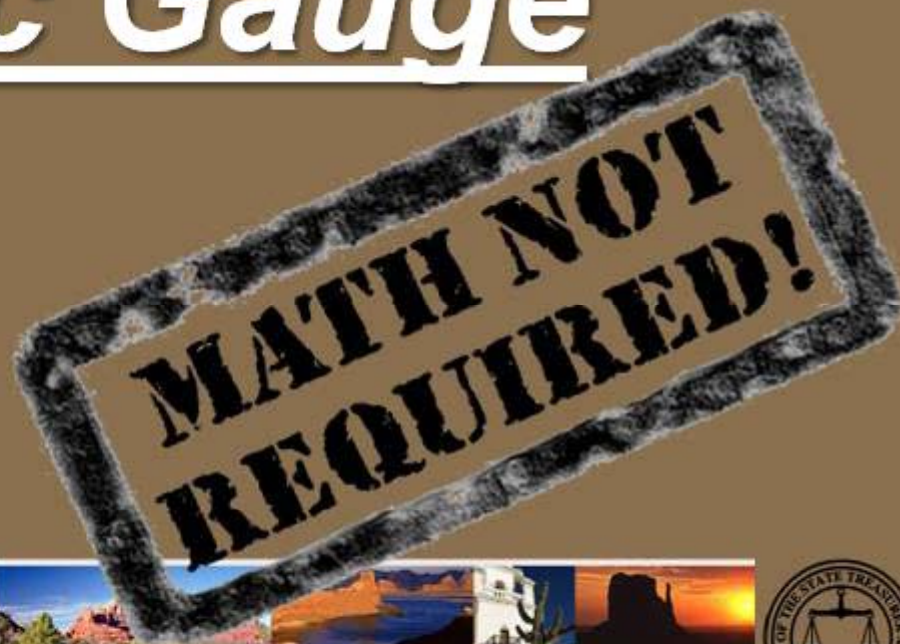
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# *Quick and Easy* *Economic Gauge*



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# Watch your local Starbucks



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*As long as people are still buying*  
*\$4 cups of coffee:*  
*They still have disposable income*



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***Mild Recession***



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# Moderate to Severe Recession



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*People can't buy a 99¢ cup of coffee:*



*Depression*



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# *Economic Forecast*



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# *The Economic Cycle*

The  
Bubble  
Bursts

The  
Crash  
Phase

The  
1<sup>st</sup>  
Turn

Hit  
Bottom

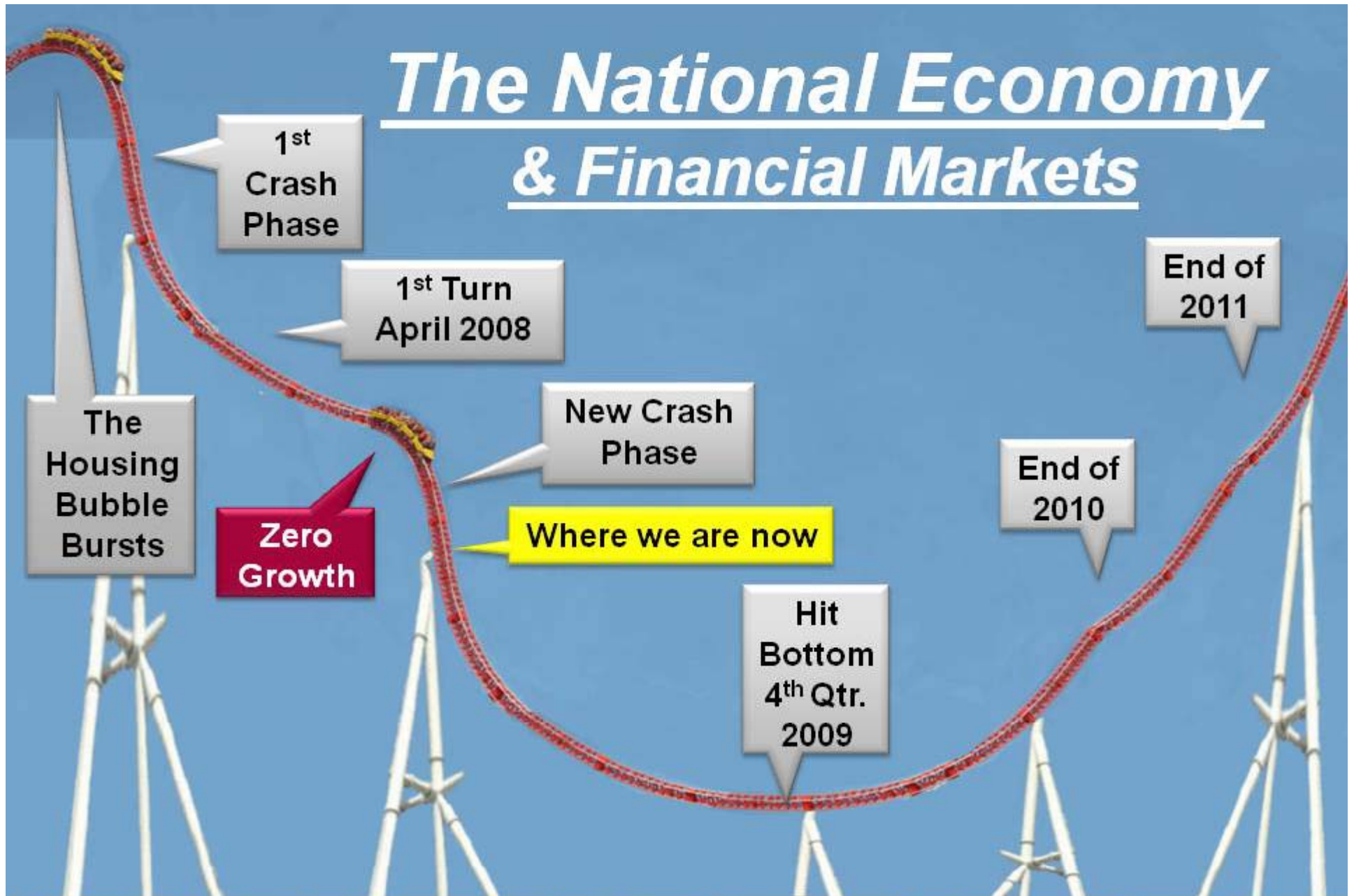
The  
Recovery  
Begins



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# *The National Economy & Financial Markets*



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# *The Arizona Economy*

The  
Housing  
Bubble  
Bursts

Zero  
Growth

The  
Crash  
Phase

1<sup>st</sup> Turn  
1<sup>st</sup> / 2<sup>nd</sup>  
Qtr. 2009

Hit  
Bottom  
End  
2009

End of  
2010

End of  
2011

End of  
2012



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# Arizona Housing lags National Housing Market



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# *State Budget Update*



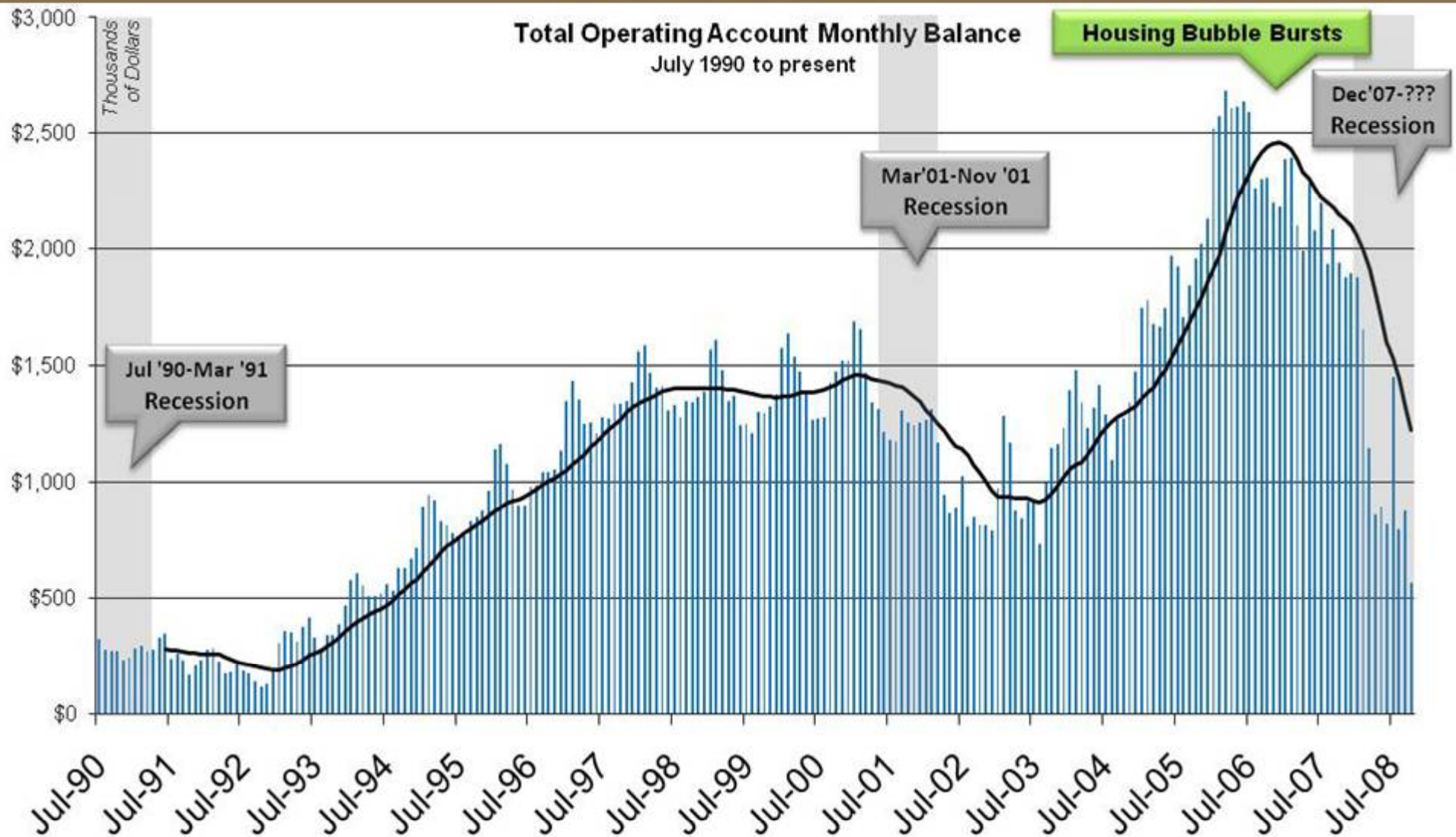
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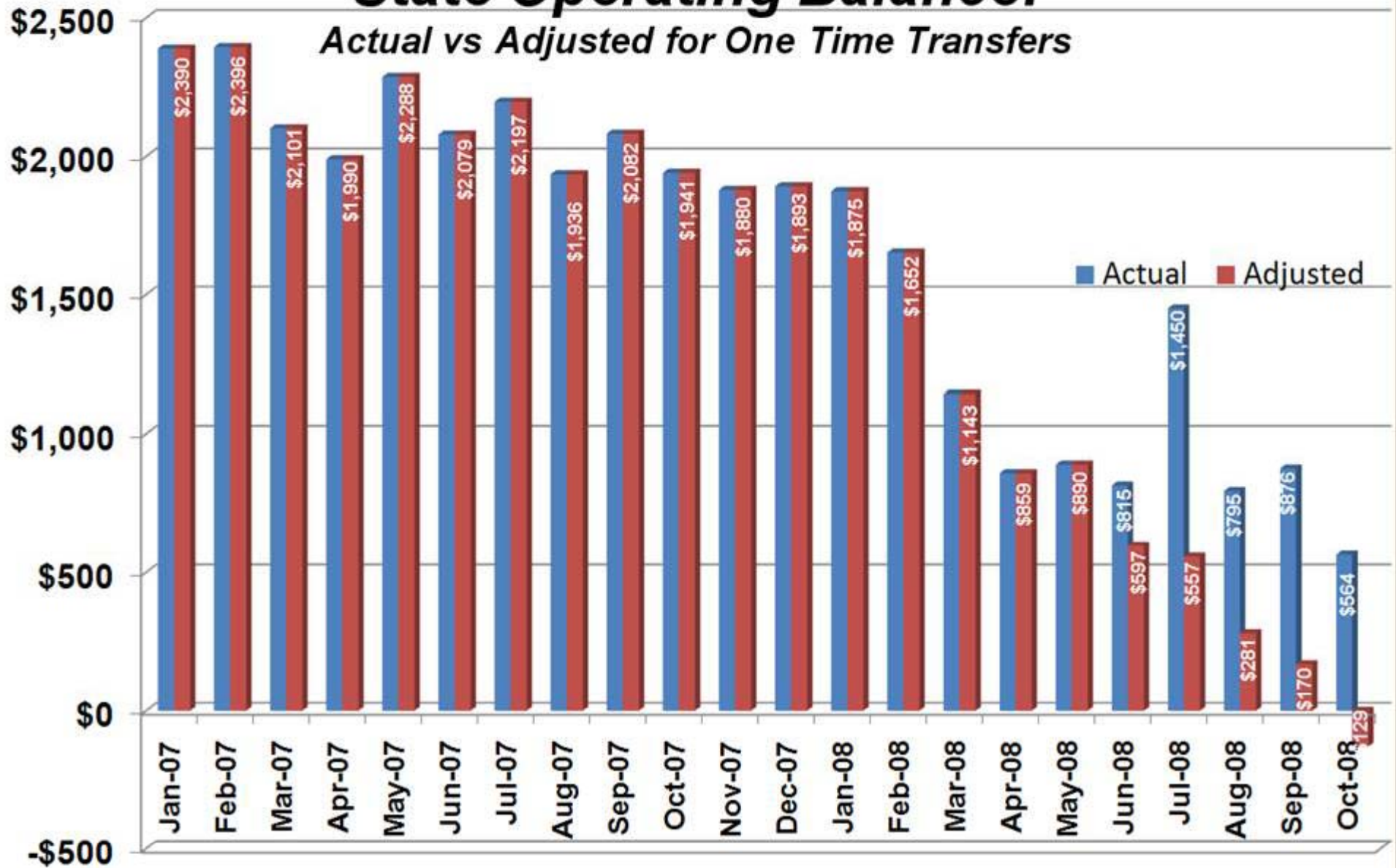
# State Total Operating Account Average Monthly Balance July 1990 to present





# State Operating Balance:

*Actual vs Adjusted for One Time Transfers*



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# State of Arizona Operating Cash Balance On A Downward Trend

## Percent Change in Operating Account Balance



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# What went wrong?

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**



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# What went wrong?

## Spending is off the rails '08 Budget

'07 Revenues  
**\$9.7 Billion**

'08 spending  
**\$10.6 billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**



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# What went wrong?

## Spending is off the rails '08 Budget

'07 Revenues  
**\$9.7 Billion**

'08 spending  
**\$10.6 billion**

Revised '08  
**\$10.3 billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**



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# What went wrong?

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**

Governor's  
FY09 forecast  
5% growth  
**\$9.98 Billion**

Treasurer's & Leading  
Economists Forecast  
'09 Revenues  
**\$8.8 Billion**



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# What went wrong?

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**

Real '09 spending  
**\$11.65 billion**  
(including accounting  
gimmicks and debt)

Governor's  
FY09 forecast  
5% growth  
**\$9.98 Billion**

Treasurer's & Leading  
Economists Forecast  
'09 Revenues  
**\$8.8 Billion**



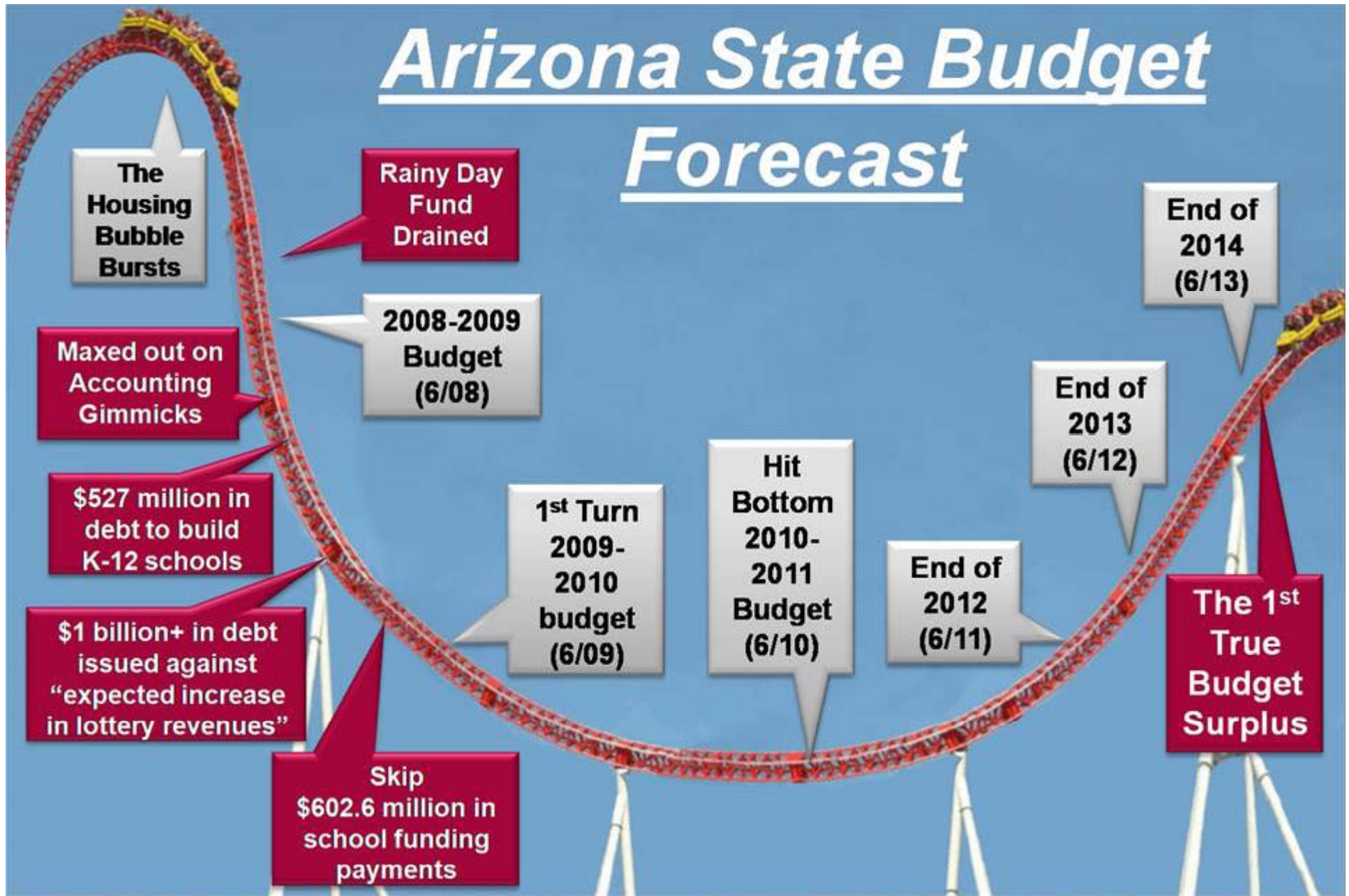
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# Arizona State Budget Forecast



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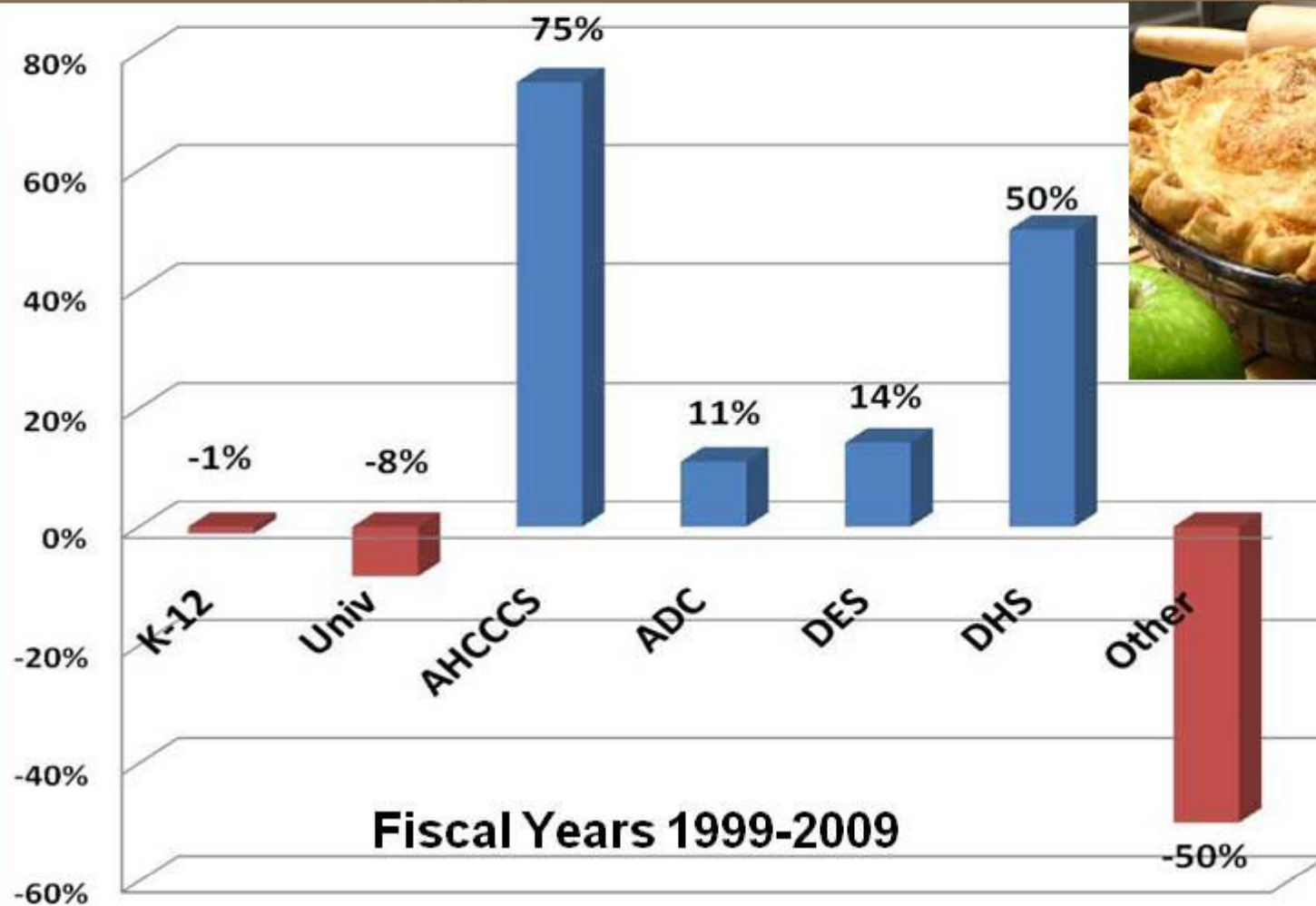


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# Where is the money going?

## % Change in “slice of the GF pie”



*So how about some  
good news?*



*I just saved a  
bunch of money on  
my car insurance!*



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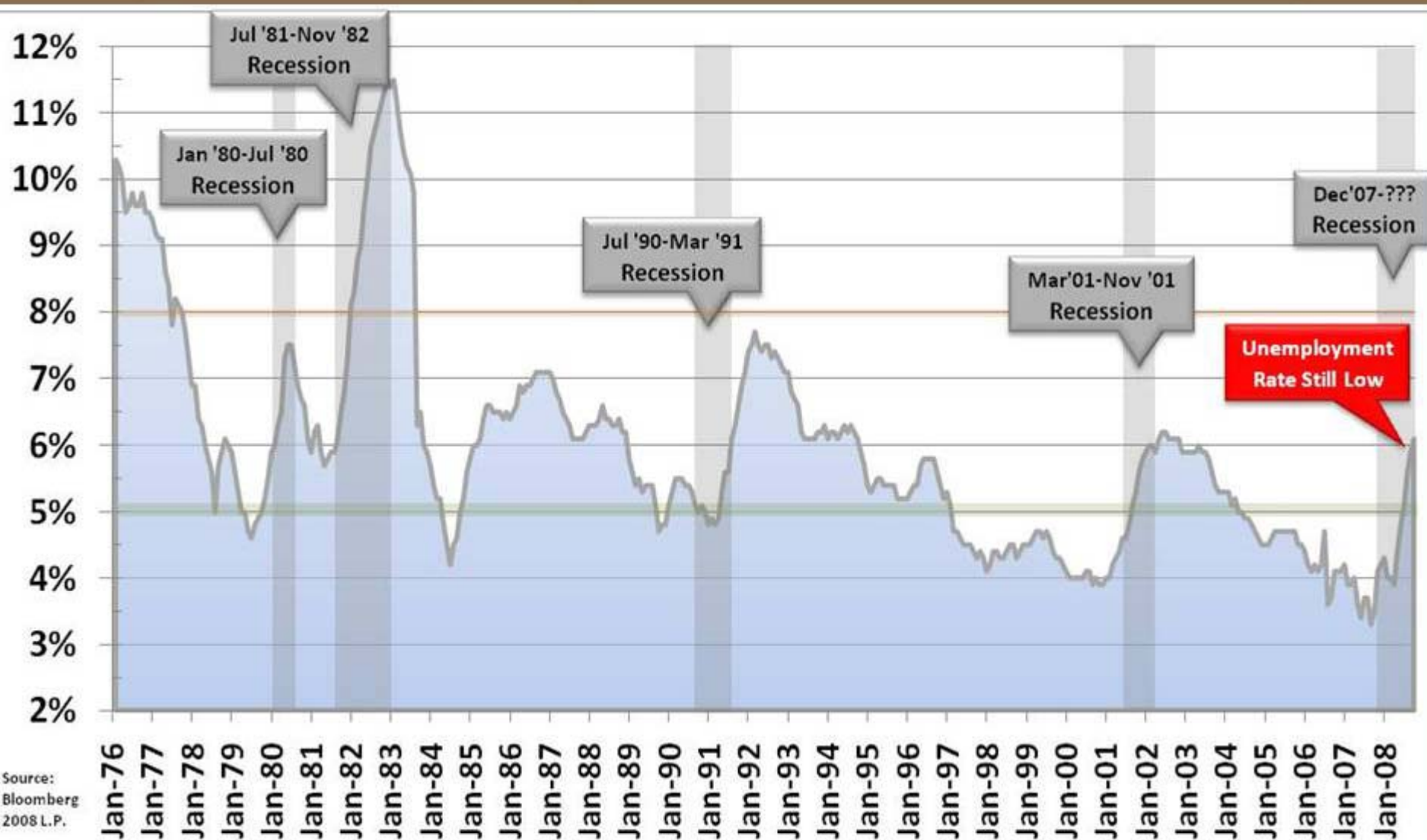
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# AZ Unemployment Rate Still Low



# Questions?

**THANK YOU**  
***Presentations & Video:***  
***Available online at:***

**[www.AzTreasury.gov](http://www.AzTreasury.gov)**



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